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## COMMERCIAL BANKS, THEIR FUNDAMENTALS AND FUNCTIONS

**Abstract:** Commercial banks play a vital role in the financial system by facilitating economic activities through various banking services. They serve as intermediaries between depositors and borrowers, ensuring the smooth functioning of financial markets. This article explores the fundamentals of commercial banks, their core functions, and their significance in economic development. Key functions such as accepting deposits, providing loans, facilitating payments, and offering investment services are analyzed. Additionally, the article discusses the evolving role of commercial banks in the digital age, highlighting trends in online banking and fintech integration.

**Keywords:** Commercial banks, banking system, financial institutions, deposits, loans, payment services, economic development, digital banking, fintech, financial intermediation.

**Introduction.** Commercial banks are an essential component of the financial system, playing a crucial role in economic stability and development. They act as intermediaries between individuals, businesses, and the government by facilitating financial transactions, providing credit, and managing money supply. Through their fundamental operations, such as accepting deposits, granting loans, and offering various financial services, commercial banks contribute to economic growth and stability.

With the advancement of technology, the role of commercial banks has evolved significantly. The rise of digital banking, fintech innovations, and financial globalization has transformed traditional banking models, making financial services more accessible and efficient. This article explores the fundamentals of commercial banks, their primary functions, and their impact on the economy. Understanding these aspects is essential for policymakers, business owners, and individuals seeking to maximize the benefits of banking services.

**Main part.** Commercial banks are financial institutions that provide a wide range of banking services to individuals, businesses, and governments. They play a crucial role in financial intermediation, ensuring the efficient allocation of resources within an economy. These banks operate under the supervision of central banks and regulatory authorities to maintain financial stability and public trust.

Commercial banks can be classified into different categories based on their ownership, structure, and operations:

1. Public Sector Banks – Owned and operated by the government, these banks aim to provide banking services to a broad population while supporting national economic goals.

2. Private Sector Banks – Owned by private individuals or corporations, these banks focus on profitability and customer service efficiency.
3. Foreign Banks – Operate in a country but are headquartered in another nation, bringing global financial practices and services to the local market.
4. Cooperative Banks – Owned and operated by their members, cooperative banks primarily serve local communities and small businesses.

Commercial banks perform various functions that facilitate financial transactions and contribute to economic development. The primary functions of commercial banks can be categorized into primary functions and secondary functions.

### Primary Functions

#### 1. Accepting Deposits

One of the fundamental roles of commercial banks is to accept deposits from individuals, businesses, and institutions. These deposits serve as a source of funds that banks use for lending and investment purposes. There are different types of deposits:

- Savings Deposits: Allow individuals to save money while earning interest.
- Fixed Deposits (Term Deposits): Offer higher interest rates for a fixed period.
- Current Deposits: Used primarily by businesses for daily transactions with no interest earnings.
- Recurring Deposits: Allow customers to deposit a fixed amount regularly and earn interest over time.

#### 2. Providing Loans and Advances

Commercial banks provide loans to individuals and businesses to support economic activities. The types of loans include:

- Personal Loans: For individuals to finance personal expenses such as education, housing, or medical needs.
- Business Loans: To support entrepreneurs and enterprises in expanding their operations.
- Mortgage Loans: Provided for purchasing real estate.
- Overdraft Facility: Allows account holders to withdraw more than their available balance.
- Trade Credit and Working Capital Loans: Given to businesses to manage short-term operational needs.

#### 3. Credit Creation

Through the lending process, commercial banks create credit, which increases the money supply in the economy. This function plays a critical role in economic expansion by providing funds to businesses and consumers.

#### 4. Facilitating Payments and Transactions

Commercial banks enable financial transactions through various payment services, such as:

- Cheque Clearing: Ensuring safe and secure fund transfers between accounts.
- Electronic Funds Transfer (EFT): Facilitating quick and digital transactions.
- Debit and Credit Cards: Providing convenient payment solutions for customers.
- Online and Mobile Banking: Allowing users to manage their finances remotely.

### Secondary Functions

### 1. Investment and Wealth Management

Commercial banks offer investment services such as asset management, financial planning, and investment advisory. They help individuals and businesses grow their wealth by providing mutual funds, bonds, and stock market services.

### 2. Foreign Exchange Transactions

Banks facilitate international trade by providing foreign exchange services, including currency exchange, remittances, and international money transfers. They also help businesses hedge against currency risks.

### 3. Safe Custody Services

Banks offer safety deposit lockers for customers to store valuable items such as jewelry, documents, and financial securities.

### 4. Issuance of Letters of Credit and Guarantees

To support international trade and business transactions, commercial banks issue letters of credit and guarantees, ensuring that payments will be made to suppliers under specified conditions.

### 5. Financial Advisory Services

Commercial banks provide expert financial advice to individuals, businesses, and governments regarding investments, risk management, and business expansion strategies.

Commercial banks contribute significantly to the overall economic development of a country in various ways:

1. **Mobilization of Savings:** By encouraging individuals to save money, banks increase capital formation, which fuels economic growth.

2. **Financing Industrial and Agricultural Sectors:** Banks provide crucial funding for industries and agricultural enterprises, promoting production and employment.

3. **Promoting Entrepreneurship:** By offering loans and financial assistance, commercial banks support small and medium-sized enterprises (SMEs), fostering innovation and job creation.

4. **Monetary Stability:** Through regulated lending and interest rate policies, commercial banks help control inflation and economic fluctuations.

5. **Enhancing Financial Inclusion:** The expansion of digital banking services has improved access to financial resources for rural and underserved populations.

With rapid technological advancements, commercial banks are undergoing a significant transformation. The adoption of digital banking, artificial intelligence (AI), blockchain, and financial technology (fintech) is reshaping the industry.

1. **Rise of Online and Mobile Banking** – Customers can access banking services 24/7 through mobile apps and internet banking platforms.

2. **Integration of Fintech Solutions** – Banks are collaborating with fintech companies to offer innovative financial products and services.

3. **Blockchain and Cryptocurrency** – Some banks are exploring blockchain technology for secure transactions and digital currencies.

4. **Artificial Intelligence and Automation** – AI-powered chatbots, fraud detection systems, and automated loan processing are improving customer service and operational efficiency.

Despite their crucial role, commercial banks face several challenges, including:

1. Regulatory Compliance: Banks must adhere to stringent financial regulations, which can increase operational costs.
2. Cybersecurity Threats: The rise in digital banking has led to concerns about data security and cyber fraud.
3. Economic Fluctuations: Financial instability, inflation, and recessionary pressures can impact lending and investment activities.
4. Competition from Fintech Companies: Traditional banks face growing competition from digital-only banks and fintech startups.

Commercial banks serve as the backbone of the financial system, providing essential services that drive economic growth and financial stability. Their core functions, including deposit acceptance, loan issuance, and payment facilitation, make them indispensable in modern economies. As the banking industry evolves with digital advancements, commercial banks must adapt to new technologies and changing customer demands while addressing challenges such as cybersecurity and regulatory compliance. By embracing innovation and maintaining strong financial practices, commercial banks can continue to play a pivotal role in global financial development.

**Conclusions and offers.** Commercial banks play a fundamental role in the financial system by providing essential services such as deposit acceptance, credit creation, payment facilitation, and financial advisory. Their ability to mobilize savings, finance businesses, and promote economic growth makes them a key pillar of financial stability and development.

In recent years, technological advancements have significantly transformed commercial banking, leading to increased digitalization, automation, and financial inclusion. However, challenges such as regulatory compliance, cybersecurity risks, economic fluctuations, and competition from fintech companies remain critical concerns. To sustain their role in the economy, commercial banks must continuously innovate and adapt to the evolving financial landscape.

By implementing these measures, commercial banks can strengthen their role in the global financial system, enhance economic growth, and ensure long-term sustainability in the digital era.

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